ROCKOWER OF CANADA LIMITED

ANNUAL REPORT 1966

Bonanza

HALL of FAME

MAVERICK

Mohawk

Cabot

LITTLE RASCAL

ROCKOWER OF CANADA LIMITED

On our cover:

A symbolic design incorporating the brand names merchandised by Rockower of Canada Limited.

DIRECTORS AND OFFICERS

Harold Hertzman, *Director, President*

Arnold I. Naiman, D.F.C., *Director, Chairman of the Board, Executive Vice-President*

Morris Schwartz, *Director, Secretary-Treasurer*

I. Budd Rockower, *Director*

Harry E. Rockower, *Director*

Jacob R. Rockower, *Director*

Herbert Kurtz, *Director*

John W. Blain, Q.C., *Director*

Desmond N. Stoker, *Director*

G. P. H. Vernon, *Director*

William R. Johnson, *Comptroller*

EXECUTIVE OFFICES

1167 Caledonia Rd., Toronto 19, Ontario

AUDITORS

Pape, Strom, Sherman & Lavine

220 Bay Street, Toronto 1, Ontario

GENERAL COUNSEL

McCarthy & McCarthy

330 University Avenue, Toronto 1, Ontario

TRANSFER AGENTS & REGISTRAR

Canada Permanent Trust Company

Toronto, Ontario and Montreal, Quebec

BANKERS

The Toronto-Dominion Bank

Toronto, Ontario

Report from the President

"Another year of continued growth..."

To our Shareholders:

On behalf of the Board of Directors, I am pleased to report that 1966 was still another year of satisfactory growth.

Your Company enters Canada's Centennial Year with an expansion of both sales and profits. These were achieved despite the continuing pressure of higher costs.

Consolidated sales increased 14.1% to $11,501,707; net earnings after taxes increased 21.3% to $615,242. These increases are attributable to a continued pioneering of discount merchandising techniques and improved efficiency, plus a gratifying acceptance by consumers of these merchandising methods.

The Company's general financial position continues to strengthen with our working capital now at $1,698,358 at the end of 1966. Current assets are $2,240,851, now 4.1 times our current liabilities. Your Company maintained its investment in marketable preferred stocks and continued its program of utilizing short term bank notes for employment of cash reserves. All outstanding preferred shares have been either converted to common or redeemed and the common shares were split on a three for one basis.

Earnings per share were 74¢ based on 828,420 common shares outstanding at the year end. Earnings per share, after preferred dividends were 88¢, based on the average number of shares outstanding during the year.

On February 28, 1967, the Board of Directors declared a common share dividend. This dividend of 8¢ per share was payable April 1st, 1967, to shareholders of record at the close of business on March 15th, 1967.

During 1966, your Company acquired and moved into a permanent home office. Uniquely designed and completely air-conditioned, our modern building has already contributed to the efficiency of our operation. In addition, provision has been made for future expansion.

Our acquisition in 1964 of a Company engaged in the manufacture of men's and boys' hosiery continues to return a healthy profit.

Now, what of the future? The year 1966 showed a gradual increase in both the quality and price of the merchandise offered in our retail outlets. New items are being introduced with increasing facility. We are always anxious to increase the scope of our operations and constantly search for ways to expand in the areas we know best. Our continuing effort is to anticipate and meet consumer requirements through the use of a speedy communication system between head office and our departments. Although our current system is designed to adequately meet present needs, we are continuing to examine automated methods which may be necessary to meet future expansion.

We have endeavoured in our 1966 Annual Report to outline some of the Rockower philosophy regarding Company methods and management. We invite you to read the balance of this Report for an informal look at your Company.

The continuing progress of our Company could not be attained without the full and complete co-operation of all our personnel. On behalf of the Directors, I wish to take this opportunity to extend a sincere vote of appreciation to each and every member of our organization for all their efforts in the past year.

Harold Hertzman

Harold Hertzman,
President.

March 1967.

FINANCIAL HIGHLIGHTS

	1966	1965	% INCREASE
Sales	$11,501,707	$10,079,756	14.1
Net earnings	615,242	507,210	21.3
Earnings per share (after preferred dividends)*	.88	.75	17.3
Dividends—Total	192,000	166,200	15.5
—Rate per common share	.23⅔	.20†	18.3

*Based on average shares outstanding during year.

†Adjusted to reflect 3 for 1 share split in 1966.

"A story of Growth...

through Integrated Planning and

Rockower of Canada is in the business of moving merchandise from manufacturer to consumer. Every effort is being made to process goods efficiently with a minimum of handling. Savings are passed on to the consumer in accordance with our discount policy.

A look at our record since the Company was established, only six years ago, offers evidence as to the success of the operation.

Rockower operates Men's and Boys' Wear Departments in 13 Towers and 6 Rite-Way Discount Department Stores in Ontario and Quebec, as well as in the Savemart Store located in Cornwall, Ontario. Two new retail outlets will be added to our operation during 1967.

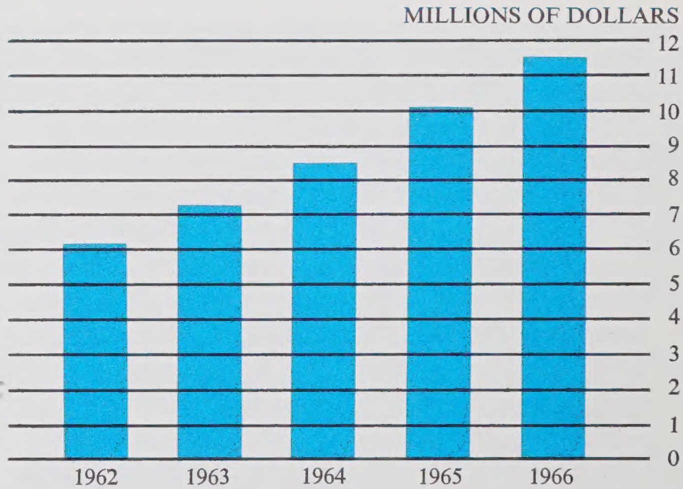
The Company sells Men's and Boys' Wearing Apparel consisting of Suits, Top Coats, Shirts, Underwear, Ties and other accessories as well as Sport and Work Clothes.

The consumer looks for Value—a combination of quality, style and price. Our Company delivers both quality and extremely competitive prices in a wide variety of merchandise.

With the whole world as a market place, our buyers are skilled in finding quality products that can be offered at attractive prices. The Company concentrates on a simple range of the most popular merchandise with few "fringe" or expensive items.

The Company also insists on 100% turnover on all goods every season. Therefore, only factory fresh merchandise is offered and this with an unconditional money-back guarantee.

SALES



Progressive Merchandising Services..."

In-store operations

"An inviting appearance to facilitate buying…"

Rockower boasts quality merchandise plus quality control in the handling, display, sale, supervision and advertising of that merchandise.

Your Company places a particular emphasis on all these things, due to team effort involving the following groups:

Store management: Once the merchandise reaches the store, it becomes the department manager's responsibility. Each manager makes sure that it has been shipped to the buyer's specifications; is ticketed properly; given proper counter presentation with related items and advertised properly to attract the customers' attention. He makes sure that our employees know all the selling features of the merchandise and he reports to the buyers on both fast and slow selling items. His responsibility also includes the inviting appearance of his department to encourage buying.

Supervisors: Each supervisor is responsible for his own group of stores and visits each one every week. He maintains a constant flow of communication between stores and Home Office, oversees all merchandising operations and upholds Company policy.

Display: Our display teams move from store to store to set up merchandise displays, enliven general department appearance and spark impulse buying. They work closely with Home Office on both seasonal and specific promotions. All display material is developed by Rockower and co-ordinated with the overall theme of the store.

Advertising: We develop our own programs in the Home Office Advertising Department, then co-operate with our landlords to determine the best space allocation for each item. Stores are alerted in advance about prices, and methods of in-store tie-ins. Buyers and supervisors record the results of previous advertisements for use in planning future promotions. Co-operation by all of these groups bring results like those obtained in our recent "Sensational Sock Sale". This single advertisement moved merchandise in amazing quantities.

Arnold I. Naiman, D.F.C., *Director, Chairman of the Board, Executive Vice-President*

Organization and Personnel

"Specialized buying patterns and administration…"

Pioneering new methods and volume discount merchandising forces us to develop new ideas in administration.

Our highly specialized buying patterns require that they be carried out in a special way. We have developed an excellent inventory control system which allows a constant and accurate flow of information from our Stores to our Buying Office and back again. The system is simple, yet accurate and allows us to meet ever changing trends.

It should be noted that our buying function is completely centralized, while our supervisory function is generally decentralized. We believe that the flexibility of centralized buying and decentralized supervision allows us to experiment with new merchandising methods and ideas.

Training of personnel begins at the store level. It is gratifying to note that our staff turnover is negligible and the majority of our senior personnel graduated from this basic training.

Rockower is, and we hope will always be, a company made of up people whose major asset is a responsible attitude to their work. Imagination plays an important role in the daily lives of our employees. Each one has a 'finger on the pulse' of their part of the whole operation and must possess the ability to recognize a consumer trend early and act upon it.

Good communication is essential and assists us to streamline our methods of operation. All our Supervisors and Managers meet at weekly intervals to exchange information and ideas that are integrated with our buying and merchandising programs.

These meetings are climaxed by an annual convention which brings the whole organization together. At this time, special awards are made to successful Managers for specific achievements. We have acknowledged past winners of these awards on page 16 of this report.

Morris Schwartz, *Director, Secretary-Treasurer*

Consolidated Balance Sheet AS AT DECEMBER 31, 1966

Assets

	1966	1965
Current:		
Cash	$ 103,889	$ 58,484
Temporary cash investments	500,000	450,000
Proceeds of cash sales, due from lessors	43,545	59,490
Merchandise inventories, at net realizable value less normal profit margin	1,266,509	1,123,585
Marketable securities, at cost (approximate market value 1966—$229,731; 1965—$273,109)	297,053	291,237
Sundry receivables and prepaid expenses	29,855	38,694
	2,240,851	2,021,490
Investments, at cost:		
Sinking fund debenture, maturing January 2, 1970 (principal repayments due during 1967—$30,000)	120,000	150,000
Special refundable tax—Government of Canada	21,350	—
	141,350	150,000
Fixed, at cost:		
Land and building	170,420	—
Furniture and fixtures	279,574	227,449
Machinery and equipment	145,719	136,912
Leasehold improvements	11,313	16,869
Motor vehicles	25,235	22,256
	632,261	403,486
Less—Accumulated depreciation	227,136	160,814
	405,125	242,672
Other:		
Cash surrender value of life insurance	28,901	19,829
Sundry deposits	1,125	1,381
	30,026	21,210
	$2,817,352	$2,435,372

See accompanying notes to financial statements.

Liabilities

	1966	1965
Current:		
Accounts payable and accrued liabilities	$ 428,764	$ 379,325
Income taxes payable	113,729	243,409
	542,493	622,734
Mortgages payable:		
7%, due July 1, 1968	11,236	—
7¾%, due August 31, 1976	36,773	—
	48,009	—
TOTAL LIABILITIES	590,502	622,734

Shareholders' Equity

	1966	1965
Capital stock (note 1)		
Authorized:		
145,000 First preference shares of a par value of $10 each, issuable in series (1965—217,000 shares)		
1,123,420 Common shares of no par value (1965—500,000 shares of a par value of 50 cents each)		
Issued and fully paid:		
72,000 6% Cumulative redeemable convertible first preference shares, 1961 series	—	720,000
828,420 Common shares (1965—205,000 shares)	756,900	102,500
	756,900	822,500
Contributed surplus	176,557	119,987
Retained earnings	1,293,393	870,151
	2,226,850	1,812,638
	$2,817,352	$2,435,372

On behalf of the Board:

H. Hertzman (Director) A. I. Naiman (Director)

Consolidated Statement of Income

FOR FIFTY-TWO WEEKS ENDED DECEMBER 31, 1966	1966	1965
SALES	$11,501,707	$10,079,756
COST OF SALES, SELLING AND ADMINISTRATIVE		
EXPENSES, before undernoted items	10,133,379	8,801,492
Remuneration of directors, officers and senior employees	121,025	115,835
Depreciation	73,332	60,648
	10,327,736	8,977,975
OPERATING PROFIT	1,173,971	1,101,781
Amortization of share issue expenses	—	34,306
INCOME BEFORE TAXES	1,173,971	1,067,475
INCOME TAXES (note 2)	558,729	560,265
NET INCOME	$ 615,242	$ 507,210

Consolidated Statement of Retained Earnings

FOR FIFTY-TWO WEEKS ENDED DECEMBER 31, 1966	1966	1965
Balance at beginning of period	$ 870,151	$ 529,141
Net income for period	615,242	507,210
	1,485,393	1,036,351
Dividends declared:		
Preference shares	26,557	43,200
Common shares	165,443	123,000
	192,000	166,200
Balance at end of period	$ 1,293,393	$ 870,151

Consolidated Statement of Contributed Surplus

FOR FIFTY-TWO WEEKS ENDED DECEMBER 31, 1966

	1966	1965
Balance at beginning of period	$119,987	$119,987
Surplus arising from conversion of preference shares, 1961 series, into common shares (note 1)	57,000	—
	176,987	119,987
Premium paid on redemption of preference shares, 1961 series	430	—
Balance at end of period	$176,557	$119,987

Auditors' Report

To the Shareholders of
Rockower of Canada Limited:

We have examined the consolidated balance sheet of Rockower of Canada Limited and its wholly-owned subsidiary company as at December 31, 1966, and the consolidated statements of income, retained earnings, contributed surplus, and source and application of funds for the fifty-two (52) week period ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income, retained earnings, contributed surplus, and source and application of funds present fairly the financial position of Rockower of Canada Limited and its wholly-owned subsidiary company as at December 31, 1966, and the results of their operations for the fifty-two (52) week period ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Pape, Strom, Sherman & Lavine
Chartered Accountants.

Toronto, Canada,
February 22, 1967.

Consolidated Statement of Source and Application of Funds

FOR FIFTY-TWO WEEKS ENDED DECEMBER 31, 1966	1966	1965
SOURCE OF FUNDS		
Net income	$ 615,242	$ 507,210
Expenses not requiring a cash outlay:		
Depreciation	73,332	60,648
Amortization of share issue expenses	—	34,306
Other items	313	844
Cash provided from operations	688,887	603,008
Mortgages on land and building, less repayments	48,009	—
Sinking fund debenture repayments	30,000	—
Disposal of fixed assets	4,308	7,409
	771,204	610,417
APPLICATION OF FUNDS		
Acquisition of fixed assets	240,150	74,420
Cash surrender value of life insurance	9,072	9,522
Special refundable tax—Government of Canada	21,350	—
Redemption of preference shares, 1961 series	9,030	—
Dividends	192,000	166,200
	471,602	250,142
INCREASE IN WORKING CAPITAL FOR PERIOD	299,602	360,275
WORKING CAPITAL AT BEGINNING OF PERIOD	1,398,756	1,038,481
WORKING CAPITAL AT END OF PERIOD	$1,698,358	$1,398,756

Notes to Consolidated Financial Statements

FOR FIFTY-TWO WEEKS ENDED DECEMBER 31, 1966

1. CAPITAL STOCK

By Supplementary Letters Patent dated July 9, 1966, the common shares of the Company were changed from shares of a par value of fifty cents each to shares of no par value.

By Supplementary Letters Patent dated October 22, 1966, the issued common shares of the Company were subdivided on a three-for-one basis, the new common shares ranking on a parity with the 295,000 unissued common shares.

Of the 72,000 preference shares issued and outstanding at the beginning of the period, 71,140 were converted into common shares during the period and 860 were called for redemption on December 15, 1966.

A summary of these changes in the capital of the Company is as follows:

	Preference shares	Common shares	Contributed surplus
Balances at beginning of period	$720,000	$102,500	$119,987
6,000 Preference shares converted into old common shares, January 2 to July 9, 1966	(60,000)	3,000	57,000
65,140 Preference shares converted into new common shares, July 10 to December 14, 1966	(651,400)	651,400	
860 Preference shares redeemed at a premium of 5%, December 15, 1966	(8,600)		(430)
Balances at end of period	Nil	$756,900	$176,557

2. INCOME TAXES

The Company and its subsidiary claim maximum capital cost allowances for income tax purposes, the accumulated amounts to date exceeding depreciation recorded in the accounts by $76,293. As a result of this practice, income taxes for the current year have been reduced by $25,650, and the accumulated amount to date by which taxes otherwise payable have been reduced in this manner is $20,634. Capital cost allowances claimed by the subsidiary to the extent of $36,612 remain available to reduce income taxes otherwise payable by that company in respect of future years.

Income taxes for the year are after a further reduction of $12,649, due to the subsidiary applying the balance of its 1964 loss against its income for the current year.

3. LONG TERM LEASES AND LICENSE AGREEMENTS

The Company has entered into long term agreements for the rental of and right to do business in twenty leased departments. Each of these agreements provides for payment by the Company to the lessor of a percentage of net sales (as defined in each agreement) of the Company made in the particular store, of which a designated portion is to be expended by the lessor for advertising. Minimum rentals payable during 1967 under these agreements aggregate approximately $851,771.

Five Year Record

	1966	1965	1964*	1963	1962
Sales	$11,501,707	$10,079,756	$8,568,306	$7,252,976	$6,205,533
Earnings before income taxes	1,173,971	1,067,475	762,599	502,013	234,089
Income taxes	558,729	560,265	406,221	257,906	112,818
Net earnings	615,242	507,210	356,378	244,107	121,271
Net earnings as a percent of sales	5.35%	5.03%	4.16%	3.37%	1.95%
Common share earnings (after preferred share dividend requirements):†					
—on average shares outstanding during year	88¢	75¢	51¢	32¢	12¢
—on shares outstanding at year end	71¢	75¢	51¢	32¢	12¢
Working capital	1,698,358	1,398,756	1,041,094	1,051,548	883,274
Current Ratio	4.1-1	3.2-1	3.3-1	3.2-1	3.5-1
Net worth	2,226,850	1,812,638	1,495,020	1,311,081	1,159,514
Dividends	192,000	166,200	135,666	66,800	55,200
Shares outstanding at year end:					
Preference shares	NIL	72,000	72,000	76,035	80,000
Common shares†	828,420	615,000	615,000	615,000	615,000
Number of retail units (at year end)	20	19	18	17	13

*Subsidiary not consolidated.

†1962-1965 adjusted to reflect 3 for 1 share split in 1966.

CORPORATE MANAGEMENT

H. Hertzman
A. I. Naiman
M. Schwartz

ADMINISTRATIVE MANAGEMENT

W. R. Johnson
B. Clouse
P. Walsh
D. Whitton

MERCHANDISE MANAGEMENT

N. G. Baum
W. C. Douglas*
J. A. Duco
R. C. Jessel
G. L. Snooks
R. L. Wagman
S. Zon

DIVISIONAL MANAGEMENT

P. C. Zettel
J. R. Beaudoin
J. R. Charbonneau
J. G. Robert
W. Thomas

STORE MANAGEMENT

Toronto	—R. F. Bales
	V. H. Gordon
	S. Levene
	H. P. Schulz*
	L. A. Van Mels*
Belleville	—S. B. Bochnek
Brampton	—R. Chenier
Cornwall	—B. Weekes
Hamilton	—G. P. Neufeld
	D. W. Watson
London	—Geo. Davis
Ottawa	—K. Zomer
Peterborough	—L. Muise
St. Catharines	—C. S. Clark
Waterloo	—A. Atkinson
Welland	—Gary Davis
Montreal	—J. G. Chabot
	W. L. Edwards
	E. St. Pierre
Quebec	—J. C. Roy*

*Recipients of merit awards in 1966.

PRINTED IN CANADA